

June 8, 1998

Honorable Richard G. Lugar
Chairman
Committee on Agriculture
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As you requested, the Congressional Budget Office has prepared this revised cost estimate of Titles X and XV of the manager's amendment to S. 1415, the National Tobacco Policy and Youth Smoking Reduction Act. Table 2 of our June 4 estimate contained a typographical error in the total estimated change in budget authority in 2000 for Title XV; the table should have read \$330 million. Table 2 in this revised estimate shows the corrected figure. This estimate, which supersedes CBO's estimate of June 4, 1998, also contains the information you requested on the 25-year effects of Title X and Title XV.

Both Titles X and XV are designed to assist tobacco farmers, owners of tobacco quotas, and communities dependent on tobacco production in adjusting to reductions in the demand for tobacco. The two titles would accomplish this goal in different ways, however, and are in some respects inconsistent with each other. In addition, Title IV of the bill provides that amounts in the Farmers Assistance Allocation Account (16 percent of the annual contributions to the National Tobacco Trust Fund through 2008 and 4 percent thereafter) would be available without further appropriation for assistance to tobacco farmers.

On May 21, 1998, CBO provided a preliminary cost estimate for S. 1415 as a whole. The May 21 estimate assumed that spending would occur in the amounts made available under Title IV—an estimated \$22 billion over the 1999-2008 period. In contrast, the estimates in this letter assume that spending would follow the formulas specified in either Title X or Title XV, assuming

that S. 1415 were modified to include only one or the other and that inconsistencies with the funding provisions of Title IV were removed.

Both Title X and Title XV would provide direct spending authority for long-term economic assistance for tobacco farmers and communities. CBO estimates Title X would increase direct spending by \$20 billion and Title XV would increase direct spending by \$18 billion over the 1999-2008 period. Title X also would increase direct spending by \$1.2 billion in 2009, and by \$0.5 billion annually from 2010 through 2023. The bulk of the spending in both titles would be for direct payments to tobacco farmers, which would total about \$17 billion under either proposal, although Title X would take 11 years to make all payments, and Title XV would make all payments in 3 years. Both titles are estimated to result in the loss of current marketing assessments of \$30 million to \$32 million per year.

Title X would continue farm price supports for tobacco, but Title XV would reduce and eventually terminate them. Because Title XV would eliminate supply controls starting with the 1999 crop of tobacco but keep price supports through the 2001 crop, Title XV would increase costs of providing price supports by an estimated \$273 million through 2008.

Title XV would create a new assessment on tobacco marketings to cover the U.S. Department of Agriculture's (USDA's) other tobacco-related administrative costs and crop insurance subsidies. This new assessment would reduce net outlays by \$641 million through 2008. Title X would require USDA to use funds of the National Tobacco Trust Fund to reimburse the agency for tobacco-related administrative costs and crop insurance subsidies. This provision would increase direct spending by an estimated \$243 million through 2008.

Title X would provide an estimated \$3.1 billion for rural economic development grants, \$247 million for a tobacco worker transition program, and \$465 million for farmer opportunity grants. These programs would increase direct spending by an estimated \$3 billion through 2008. Title XV would provide funds for rural assistance block grants covering similar purposes, resulting in estimated increased direct spending of \$1 billion through 2008.

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Table 1 shows the estimate of the direct spending effects of Title X, and Table 2 shows the estimate of the direct spending effects of Title XV. Each estimate assumes that the other title would be removed from S. 1415 and that inconsistencies with the funding provisions of Title IV would be eliminated.

Over the 25 years that S. 1415 would be in effect, CBO estimates that Title X would have a cumulative cost of about \$28 billion (assuming that Title XV is struck from the bill prior to enactment). We estimate that Title XV would have a cumulative cost of about \$18 billion over the same 25-year period (assuming that Title X is struck and that inconsistencies with Title IV are eliminated).

If you wish further details, we will be pleased to provide them. The CBO staff contacts are Dave Hull, Gary Brown, and Craig Jagger (for the estimates of spending for buyout and transition payments, price supports, rural development and crop insurance), and Christina Hawley Sadoti and Justin Latus (for the estimates of spending for education and labor).

Sincerely,

June E. O'Neill
Director

Attachments

cc: Honorable Tom Harkin
Ranking Minority Member

Honorable John McCain
Chairman
Committee on Commerce, Science, and Transportation

Honorable Ernest F. Hollings
Ranking Democrat
Committee on Commerce, Science, and Transportation

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Honorable Pete V. Domenici
Chairman
Committee on the Budget

Honorable Frank R. Lautenberg
Ranking Minority Member
Committee on the Budget

Honorable Wendell H. Ford

TABLE 1. Preliminary CBO Estimate of Direct Spending Effects of Title X of S. 1415, the National Tobacco Policy and Youth Smoking Reduction Act^a

		By Fiscal Year, in Millions of Dollars									
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CHANGES IN DIRECT SPENDING											
Section 1021: Payments for lost tobacco quota											
Estimated Budget Authority		17,259	0	0	0	0	0	0	0	0	0
Estimated Outlays		1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650	1,650
Section 1022: Costs of the Department of Agriculture											
Estimated Budget Authority		21	22	23	23	24	25	26	27	27	28
Estimated Outlays		19	22	23	23	24	25	26	26	27	28
Section 1023: Tobacco community economic development grants											
Estimated Budget Authority		312	311	310	310	309	308	307	306	306	305
Estimated Outlays		16	84	152	239	310	310	309	308	308	307
Section 1025: Elimination of tobacco marketing assessment											
Estimated Budget Authority		32	31	31	31	31	31	31	31	30	30
Estimated Outlays		32	31	31	31	31	31	31	31	30	30
Section 1031: Tobacco worker transition program											
Budget Authority		22	25	25	25	25	25	25	25	25	25
Estimated Outlays		11	24	25	25	25	25	25	25	25	25
Section 1032: Farmer opportunity grants											
Budget Authority		43	43	43	43	43	50	50	50	50	50
Estimated Outlays		9	42	43	43	43	44	50	50	50	50
Total											
Estimated Budget Authority		17,689	432	432	432	432	439	439	439	438	438
Estimated Outlays		1,737	1,853	1,924	2,011	2,083	2,085	2,091	2,090	2,090	2,090
Memorandum:											
Estimated Amounts Made Available Under Title IV											
		2,500	1,800	2,000	2,000	2,100	2,200	2,300	2,400	2,500	2,500

a. The estimate assumes that Title XV would be stricken.

TABLE 2. Preliminary CBO Estimate of Direct Spending Effects of Title XV of S. 1415, the National Tobacco Policy and Youth Smoking Reduction Act^a

		By Fiscal Year, in Millions of Dollars									
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CHANGES IN DIRECT SPENDING											
Section 1514 & 1515: Buyout and transition payments for lost value of tobacco quota											
Estimated Budget Authority		17,259	0	0	0	0	0	0	0	0	0
Estimated Outlays		5,753	5,753	5,753	0	0	0	0	0	0	0
Section 1521: Rural economic assistance block grants											
Budget Authority		200	200	200	200	200	0	0	0	0	0
Estimated Outlays		18	78	116	162	200	182	122	84	38	0
Section 1532: Discontinue tobacco marketing assessment											
Estimated Budget Authority		9	31	31	31	31	31	31	31	30	30
Estimated Outlays		9	31	31	31	31	31	31	31	30	30
Section 1532: Net outlay effects of lowering/terminating price support											
Estimated Budget Authority		0	161	117	91	-68	-75	-97	-58	202	0
Estimated Outlays		0	161	117	91	-68	-75	-97	-58	202	0
Section 1552: Assessment for tobacco-related administrative costs and subsidies											
Estimated Budget Authority		-61	-62	-62	-63	-64	-64	-65	-66	-67	-67
Estimated Outlays		-61	-62	-62	-63	-64	-64	-65	-66	-67	-67
Total											
Estimated Budget Authority		17,407	330	286	259	99	-108	-131	-93	165	-37
Estimated Outlays		5,719	5,961	5,955	221	99	74	-9	-9	203	-37
Memorandum:											
Estimated Amounts Made Available Under Title IV											
		2,500	1,800	2,000	2,000	2,100	2,200	2,300	2,400	2,500	2,500

a. The estimate assumes that Title X would be stricken and inconsistencies with Title IV would be eliminated.